

THE CALIFORNIA DEBT AND
INVESTMENT ADVISORY COMMISSION

Session III

Presents

***CURRENT PRACTICES IN
ASSESSING AND USING
DEVELOPER IMPACT FEES***

May 4th, 2006



Impact Fees in General

- ❖ Fee Program is Established
- ❖ General Fee Categories for Financing
 - Water and Sewer Connection Fees
 - AB 1600 Fees
 - Facilities – Public Facilities, Police, Fire, Libraries, Admin Buildings
 - Improvements -- Roads, Parks, Storm Drain
 - School Fees
- ❖ Different Securities are Used to Fund Different Fees
- ❖ Pay as You Go Option for Any Fee

Jurisdictions

- ❖ Fees can be Levied by Different Agencies for the same Project
 - Local Agencies
 - Cities and Counties
 - Water and Sewer Utility Districts
 - Special Districts of (Community Service Districts)
 - Transportation Agencies or Agency Joint Power Authorities
- ❖ Often Cities and Counties Collect Fees for Other Agencies
- ❖ Permitting Agency and Entitlement
- ❖ Financing Needs Consent of All Jurisdictions

No Bonds

- ❖ Potential Solutions Without Debt
- ❖ Pay as You Go
 - Lack of Adequate Infrastructure (Bottlenecks)
 - Flow of Revenues Depends on Development
 - Costs can Increase Faster than Fees (inflation)
 - Can Result in Patchwork Infrastructure
- ❖ No Interest Cost
- ❖ Easier for Large Transportation JPAs
- ❖ Difficult for Smaller Local Agencies

Internal Funding

- ❖ Potential Solutions Without Debt (cont.)
- ❖ Inter Fund Borrowings
 - Use General Fund or Enterprise Funds to Advance Funds
 - May not have Sufficient Funds Available
 - Create Operating Cost Difficulties
 - Cannot Recover Interest
- ❖ Borrowing from Different Impact Fee Funds
- ❖ Repayment Depends upon Development (build-out)

Developer Conditions

- ❖ Conditions of Entitlement
 - Require Developer to Build Infrastructure
 - Administration of Fee Credits
 - Infrastructure Costs Exceed Fee Requirements – Reimbursement Agreements
 - Local Agency Infrastructure Priorities
- ❖ Pre Pay Fees at Tentative Map
- ❖ Issuer Needs Negotiating Leverage
- ❖ Can Result in Uneconomic Project
- ❖ Are Bonds a Double Dip?

Financing with Bonds

- ❖ Potential Solutions with Debt
- ❖ Types of Debt Instruments
 - Water and Sewer Revenue Bonds
 - Redevelopment Agency Bonds
 - General Fund Lease Debt
 - Land Secured
- ❖ Can Finance Larger Projects (Time Limitations)
- ❖ Bond Proceeds must be Used for Capital Projects (No Administration Costs)
- ❖ Fees are a Source of Payment for the Bonds

Water and Sewer Connection Fees

- ❖ Revenue Bonds
- ❖ Enterprise Fund Debt
 - Must have Existing Rate Base (problem in growing communities)
 - Rating Agency only Allow Fees to Count for Coverage (1.25x)
 - Shifts Risks and Costs of New Development to Existing Ratepayers
 - Need Connection Fees for Purposes Other than Debt Service
- ❖ Strong Credit – Lower Interest Cost
- ❖ Local Agencies include Cities Counties and Special Districts
- ❖ Tax Issues if you Finance Fees with Bonds

Lease Financings

- ❖ General Fund Used as Investor Security
- ❖ Repayment Source are Impact Fees
- ❖ General Fund Borrowings are Typical for Facility Financings (Police, Fire)
- ❖ General Fund Bears Risk
- ❖ Requires Assets to Lease (Asset Transfer)
- ❖ Limited Debt Capacity

Land Secured Debt

- ❖ 1913 / 1915 Act Assessment Bonds
- ❖ Community Facilities Districts (Mello Roos Bonds)
- ❖ Can Fund Improvements and Impact Fees
- ❖ Must Prioritize Land Secured Debt Capacity
- ❖ Developers / Property Owners Pay Debt Service
- ❖ Default Remedy is Foreclosure

Assessment Bonds

- ❖ Can be Used to Fund Fess and Improvements
- ❖ Secured by Assessment Liens (3x ratio)
- ❖ Requires the Liens to Be Spread on a Benefit Basis
- ❖ Typical Fees which Can be Financed
 - Roads, Traffic and Interchanges, Bridges, Thoroughfares and Parking
 - Water and Sewer, Storm and Drainage
 - Parks, Parkways and Landscaping, Land and Open Space
- ❖ Cannot be Used to Finance Facility Fees
- ❖ Parity with Mello Roos Bonds
- ❖ Limited Debt Capacity and Priority of Funding

Mello Roos Bonds

- ❖ Broader Authorization than Assessment Bonds
- ❖ Can Fund Fees, Improvements, and Facilities
- ❖ Secured by a Special Tax (2%)
- ❖ Can Finance Same Fees as Assessment Bonds plus:
 - Public Facilities - Libraries, Administration, Conference Center etc.
 - Police, Public Safety and Fire Facilities
 - School Fees
- ❖ Requires Joint Facility Agreements (if multi jurisdictions)
- ❖ Parity with Assessment Bonds
- ❖ Limited Debt Capacity and Priority of Funding

Case Studies

- ❖ Revenue Bond Example
- ❖ General Fund Lease Example
- ❖ Land Secured Example

Case Study: Revenue Bonds

- ❖ City of 50,000 need to Expand Wastewater Treatment Plant
 - ❖ Prepares Rate Study –
 - 50% of Cost from Current Users 50% for New Development
 - Increases User Rates and Connection Fees
- ❖ Issues \$30 million Bond -- Debt Service is \$2 million/ year
- ❖ Connection Fees are Set to Cover \$1 million/year and Future Capital Costs
- ❖ Net Revenues must Cover \$2.5 million (1.25x coverage requirement)
- ❖ Existing Users Rates must Increase to Cover full \$2 million/year
- ❖ Connection Fees can Only Provide the Coverage

Case Study: General Fund

- ❖ City Approves 500 acre Specific Plan for 2,000 Units
- ❖ Expected Build Out is 10 years
- ❖ Police Facility Fee is \$2,000/Unit
- ❖ City Issues \$2.5 million in COPs to Pay for Police Station
- ❖ COPs are Secured by the General Fund
- ❖ Source of Repayment are the Police Facility Fees
- ❖ City has Already Conditioned Developer to Put in Major Streets and Drainage Above Fee Requirement
- ❖ General Fund May Have to Step in and Make Payments

Case Study: Land Secured

- ❖ City has Updated Fee Program in Place
- ❖ Developer is Approved for a 400 acres 1,200 Unit Project
- ❖ Developer Requests Financing for Major Offsite Improvements (Part of Fee Program)
- ❖ Can Use Either Mello Roos or Assessment Bonds
- ❖ City must Participate in Local Transportation JPA to Fund Interchange
- ❖ Developer Wants Fee Credits for Improvements Installed and Acquired with Bonds
- ❖ City says No Fee Credits Because Developer was Reimbursed with Bonds and Needs Roadway Fees for the JPA

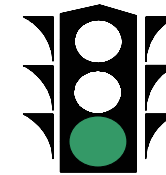
Credit Entitlement Requirements



High Risk



Moderate Risk



Safe

Land
Development
Stage

Raw Acreage

Entitled Acreage

Finished Lot

Building Complete

Entitlements

General Plan
Approved
and Zoned

Tentative
Map/Development
Agreement

Final
Subdivision Map

Building
Permit

Certificate of
Occupancy

SCIP
Program

Does not Qualify

Impact Fee
Prefunding Program
(Typical Bond Project)

Impact Fee Reimbursement Program

Amount
Invested

\$30,000
(Land Costs)

\$45,000
(Land and Offsites)

\$60,000
(Onsites)

\$90,000
(Building Permit)

\$275,000
(Finished Home)

Lien-to-Value
Coverage

2:1

3:1

4:1

6:1

18:1
(Investment Grade)

Allowable uses of Improvement Bond Laws

C = Capital Improvements M = Operations and Maintenance X = C + M	Streets, etc.	Sidewalks	Sanitary Sewers	Storm Drainage	Water Supply	Electric Power	Gas Supply	Street Lighting	Parking	Geologic Hazard	Flood Control	Pedestrian Malls	Bridges	Groundwater Recharge	Landscaping	Parks, Parkways	Recreation	Schools, Libraries	Police, Fire, etc.	Transportation	Miscellaneous	Open Space
Improvement Act of 1911	C	X	C	C	C	C	C	X	C	C	C	C	C		C	C				X	C	C
Municipal Improvement Act of 1913	C	C	C	C	C	C	C	C	C	C	C	C	C		C	C				C	C	C
Improvement Bond Act of 1915	C	C	C	C	C	C	C	C	C	C	C	C	C		C	C				C	C	C
Mello-Roos Community Facilities Act of 1982	C	C	C	C	C	C	C	C	C		X	C	C		X	X	X	X	X	X	C	X
Benefit Assessment Act of 1982								M			X											
Landscaping & Lighting Act of 1972		X						X							X	X	X					X
Vehicle Parking District Law of 1943									C													
Pedestrian Mall Law of 1960												C										
Map Act Areas of Benefit	C		C	C									C	C								
Geologic Hazard Abatement District																						
County Service Area Law			M		M			M								X	X	X	M		M	
Street Lighting Act of 1919								M														
Street Lighting Act of 1931								M														
Municipal Lighting Maintenance Act of 1927								M														